

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 6170**  
**BILL NUMBER: SB 55**

**NOTE PREPARED:** Nov 14, 2007  
**BILL AMENDED:**

**SUBJECT:** Average of the Annual Compensation for PERF.

**FIRST AUTHOR:** Sen. Young R Michael  
**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
☐ **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill reduces from 20 to 12 the number of calendar quarters used by the Public Employees' Retirement Fund (PERF) in the computation of the "average of the annual compensation".

(The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

**Effective Date:** July 1, 2008.

**Explanation of State Expenditures:** Reducing from 20 to 12 the number of calendar quarters used in the computation of the "average of the annual compensation" will mean an increase in annual expenditures as shown in the following table.

	State	Municipalities	Total
Increase in Unfunded Accrued Liability	\$91.693 M	\$126.919 M	\$218.612 M
Increase in Annual Cost (Funding)	\$11.059 M	\$16.080 M	\$27.140 M
Increase in Annual Cost as % of Pay	0.697%	0.623%	0.651%
* Estimates are based on 2006 actuarial valuation.			

The funds affected for the state for the annual cost are the state General Fund (55%), or \$6.082 M, and various dedicated funds (45%), or \$4.976 M. The percentage split represents the approximate split for personal services in the state budget. The funded status of PERF would decrease by approximately 2%.

The above estimates are based on the 2006 Actuarial Valuation for PERF. They will be updated based on the 2007 PERF Valuation, due out later this year.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** See *Explanation of State Expenditures*.

**Explanation of Local Revenues:**

**State Agencies Affected:** All.

**Local Agencies Affected:** Local units with members in PERF.

**Information Sources:** Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317-576-1508.

**Fiscal Analyst:** James Sperlik, 317-232-9866.

**DEFINITIONS**

**Funding-** Funding is a systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

**Unfunded Actuarial Liability** - The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.